



Strategic Challenge '18

Regional Final

Disclaimers

- All information necessary to answer the questions of this case is presented in the following slides and/or delivered at hand or by e-mail by the Strategic Challenge Organization Team
- The information presented in this case regarding the drugstore market was solely designed to match the solution of this case. Therefore, we discourage the use of other sources of information, such as press clippings or market reports
- Information about the market and the company has been simplified and/or modified for this case
- Consider that this case is happening on January 1st, Y1

Questions by e-mail regarding this case will not be answered! Use the Friday and Saturday meetings to ask all the questions regarding the case



E-mail from the case manager

Case introduction (1/2)



From: André Bolonhini
To: RD's case team
Subject: **[New Project] Category Management**

Hello team, hope all is well.
Just had a meeting with RD Managing Directors and have some great news.

First of all, they were very impressed with our previous analysis and recommendations. Thank you all for the great work!

As for the next phase, RD's vice-president believes that they have an opportunity to enhance their **category management and shopping experience**. He is really data-driven and believes that there is space to increase store's profitability. To understand what are the growth levers, we are going to consider the Bela Vista store, which is a mature drugstore with revenues, product mix, and client base close to the chain's average.

He is expecting us to understand what are the key levers of growth and how much each of them would impact in the gross profit. As a result of that, he would like to know what is the **profitability of an average store at its full potential**.

To guide us in that work stream, our partner gave us his answer-first of what the levers are. Given his market experience, he was able to list three main levers: (1) **migration from reference medicines to generics**, (2) **in-store assortment review for Hygiene and Personal Care (HPC) products** and, (3) **investment in private label for HPC products**.

To quantify those levers and to prove that they are in fact profit opportunities, we need you to conduct some analysis in order to answer the following questions:

(1) Medicines: Which medicine subcategories should be incentivized to migrate from reference to generic products? Which ones should be prioritized in this process? For ease of implementation, I believe that the ideal solution here would be to split the migration in three waves of implementation.
[...]



E-mail from the case manager

Case introduction (2/2)



[...]

(2) HPC – in-store assortment: For which categories in HPC should we expand the number of modules of exposure? What categories should be reduced to make room for new investments? What should be the final module allocation?

For this part of the analysis I would recommend you to split into the following steps:

1. Calculate each category's profitability per exposed module
2. Estimate traffic generation per category, which means to calculate, for each category, the cross-sell revenue generated for other categories
3. Determine where to expand and where to reduce based on those two variables

(3) HPC – Private Label: What are the three HPC categories with the most potential for private label expansion? Why should RD prioritize those categories? Remember that we can either recommend them to further invest in categories with private label products already developed or to create private labels for new categories.

Once we develop a recommendation for all three topics, we are expected to **quantify their impacts on gross profit**. Therefore, I am expecting you to present me the estimated impacts of each lever and a final page showing the store's full potential. Besides, it would be nice if you could map some **areas of further investigation**, with your guesses of where we could find more incremental profit. We can explore it as next steps at the meeting with the director.

As we have an important meeting with the client this Monday, unfortunately, we will need to work this weekend. I was hoping we could schedule a quick chat on Saturday morning to make sure you are on the right track and we should also meet this Sunday, when you can show me all the main findings. On Sunday please send me the presentation before **12:00 (noon)**, so I can pre-read it before we meet. Please don't forget to fill the "Answer Sheet" tab on the given Excel file with your recommendation of change in number of exposure modules.

Thanks a lot for the great work you have been doing, team! I look forward to meeting you tomorrow!

Best,
André



An average conventional RD store has five main product departments

Medicines



- Reference
- Similar
- Generic

HPC (Hygiene and Personal Care)



- Skin & sun blockers
- Hair
- Deodorants
- Oral Hygiene
- Bath & shaving
- Infant and diapers
- Intimate hygiene
- Make-up
- Fragrances

Nutritionals



- Vitamin complexes
- Food supplements & weight loss
- Milk and infant nutrition
- Herbal medicines

Health



- Health devices
- Vision
- First-aids
- Condoms
- Childcare
- Paper tissue

Convenience



- Batteries, Magazines & Candies
- Sweetener, Drinks, Cereal Bars

% Revenue

47%

31%

12%

8%

2%

Source: Bain Strategic Challenge – all data has been solely designed to match the solution of this case



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% Revenue

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RD sells all three types of medicines that serve different consumer's needs

	REFERENCE	SIMILAR	GENERIC
Example			
Market entrance	Pioneer	After reference patent expiration	After reference patent expiration
Extra costs ⁽¹⁾	R&D e Marketing	Marketing	-
Label elements	<ul style="list-style-type: none"> • Brand • Active ingredient • Pharmaceutical company 	<ul style="list-style-type: none"> • Brand • Active ingredient • Pharmaceutical company 	<ul style="list-style-type: none"> • Yellow band • Active ingredient • Pharmaceutical company
Price point	\$\$\$	\$	\$

Note: (1) Costs the are on top of all the costs that all types of medicines have such as raw materials, transportation, etc.

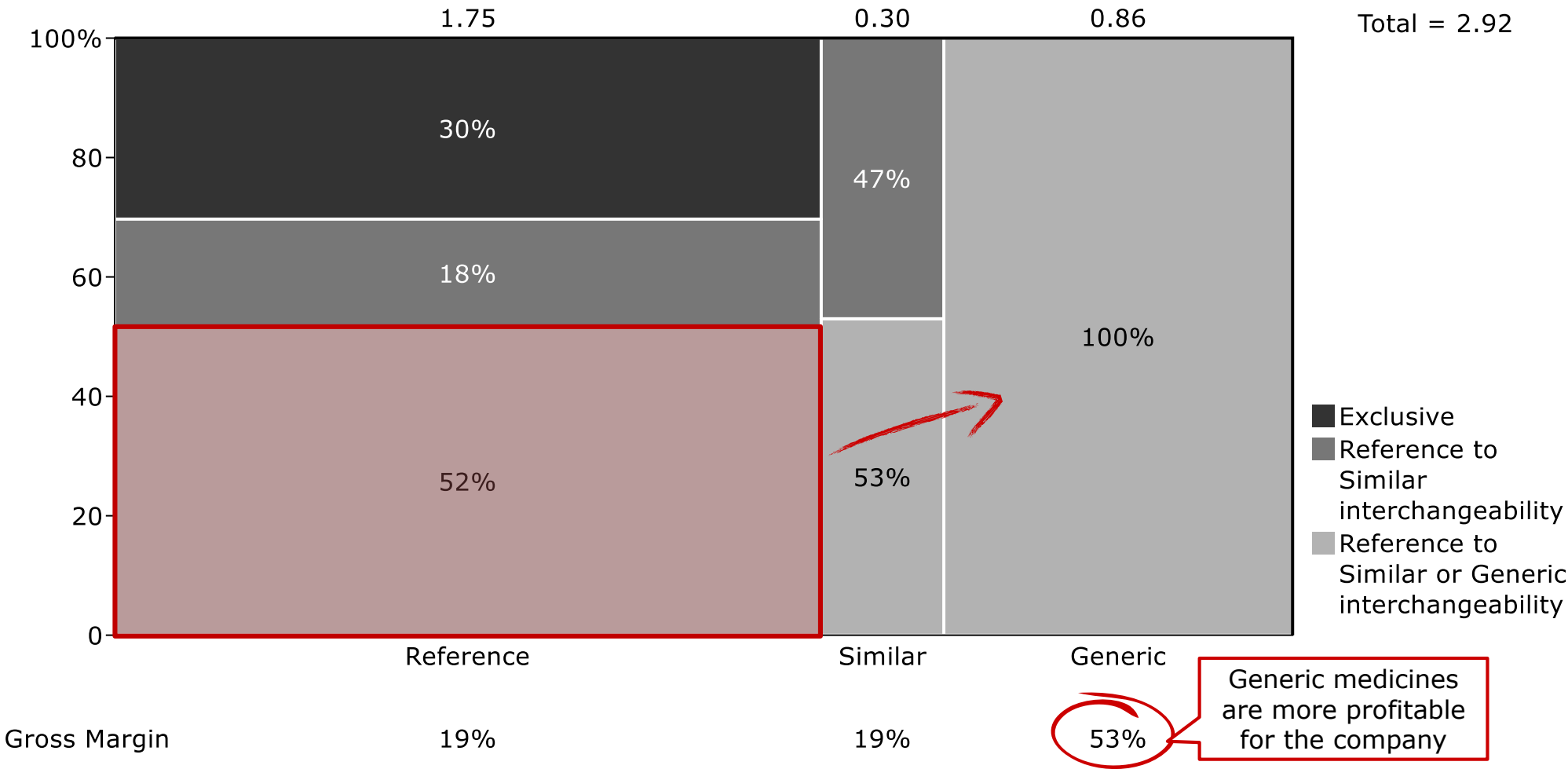
Source: Bain Strategic Challenge – all data has been solely designed to match the solution of this case



RD can pursue higher margins by encouraging migration of reference to generic

RD medicine revenues (R\$B, Y0)

WHOLE CHAIN



Source: Bain Strategic Challenge – all data has been solely designed to match the solution of this case

Product director gave us his impressions about migration from reference to generic

PRODUCT DIRECTOR QUOTES

*"Although most categories of generic medicines are way more profitable than their reference counterparts, **some of them are exceptions to the rule. We must map those exceptions** so that we do not encourage the migration"*

*"I strongly believe that some categories have a lot of potential to grow generic sales, but their current penetration is very low. At the end of the day, I would like to know which categories have the **biggest gross margin at full potential**"*



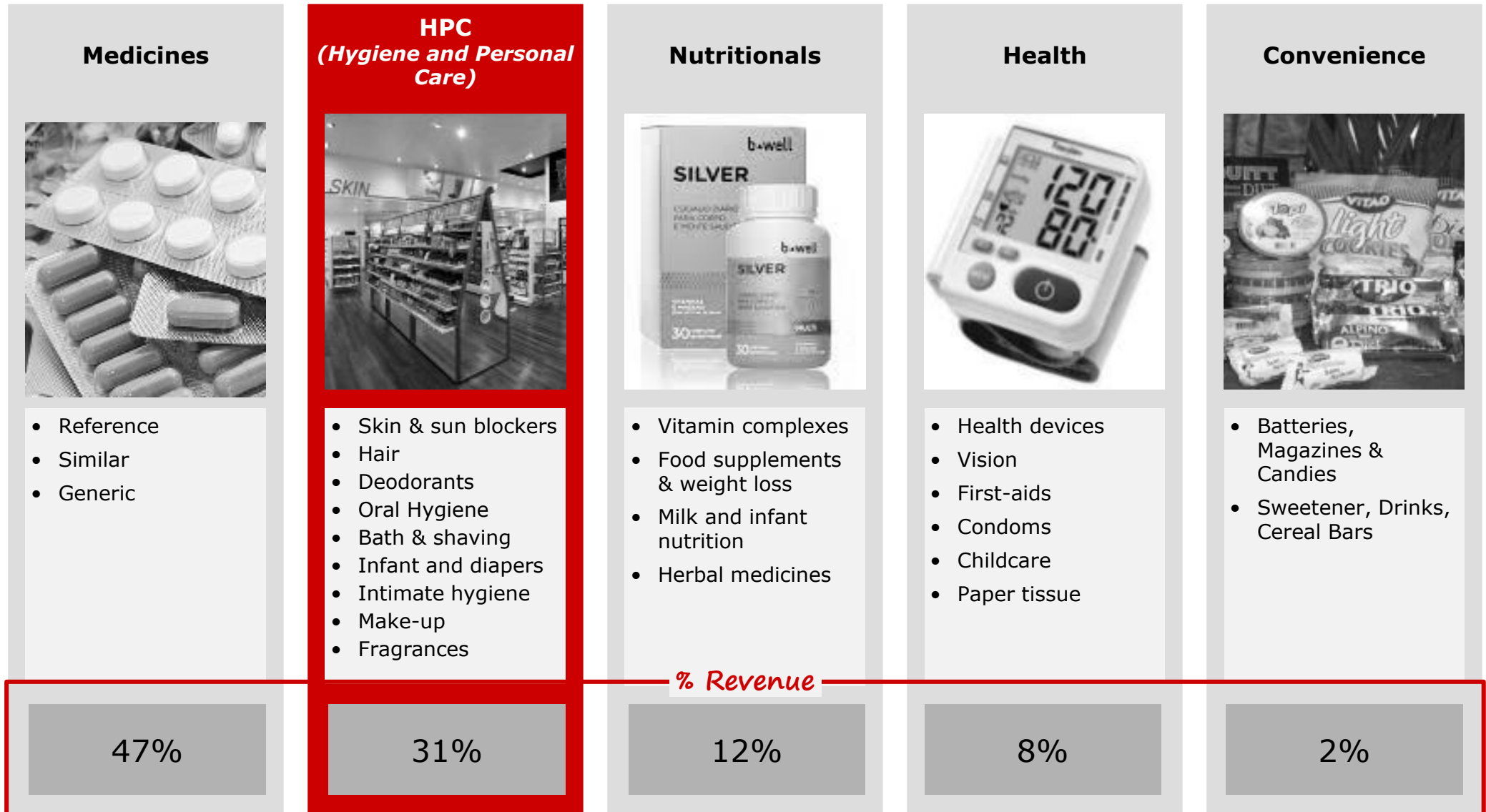
Customer loyalty to reference medicines varies according to the subcategory

LOYALTY TO REFERENCE PRODUCT PER SUBCATEGORY

	Low	Medium	High
Migration potential*	65%	40%	10%
Subcategories	<ul style="list-style-type: none"> • Allergy • Antibiotics • Anti-inflammatory • Antivirals • Cardiotherapy • Decongestants • Gastric • Vasodilators 	<ul style="list-style-type: none"> • Anticonvulsants • Antidepressants • Anti-psychotic • Cholesterol • Contraceptives • Corticosteroids • Dermatological • Diabetes • Erectile dysfunction • Gynecological 	<ul style="list-style-type: none"> • Analgesics • Anti-asthmatics • Anti-coagulant • Anti-parkinsonians • Ophthalmology • Sedatives

Note: * Potential of migration estimates what portion of current reference medicine units sold can be migrated to generic in a realistic scenario
Source: Bain Strategic Challenge – all data has been solely designed to match the solution of this case

An average conventional RD store has five main product departments



Source: Bain Strategic Challenge – all data has been solely designed to match the solution of this case

HPC market is divided into three dimensions and 12 categories

Hygiene



BATH

- All kinds of soap, shower gel, talc



INTIMATE HYGIENE

- Absorbents and geriatric diapers



DIAPERS

- Disposable diapers for babies



DEODORANTS

- All kinds of deodorants and anti-perspirants



ORAL HYGIENE

- Toothpaste, toothbrush, mouthwash, dental floss



INFANT HPC

- Products for children under 11 years old; contains wipes

Personal Care



SHAVING

- Shaving products (creams and razors)



HAIR

- Shampoo, conditioner, permanent and relaxing
- Dyes



SKIN

- Body, face and hand cream, depilation products



SUN BLOCKERS

- Sunscreen, suntan lotion, sunscreen cream



MAKEUP

- Makeup and accessories for face, eyes, lips and nails



FRAGRANCES

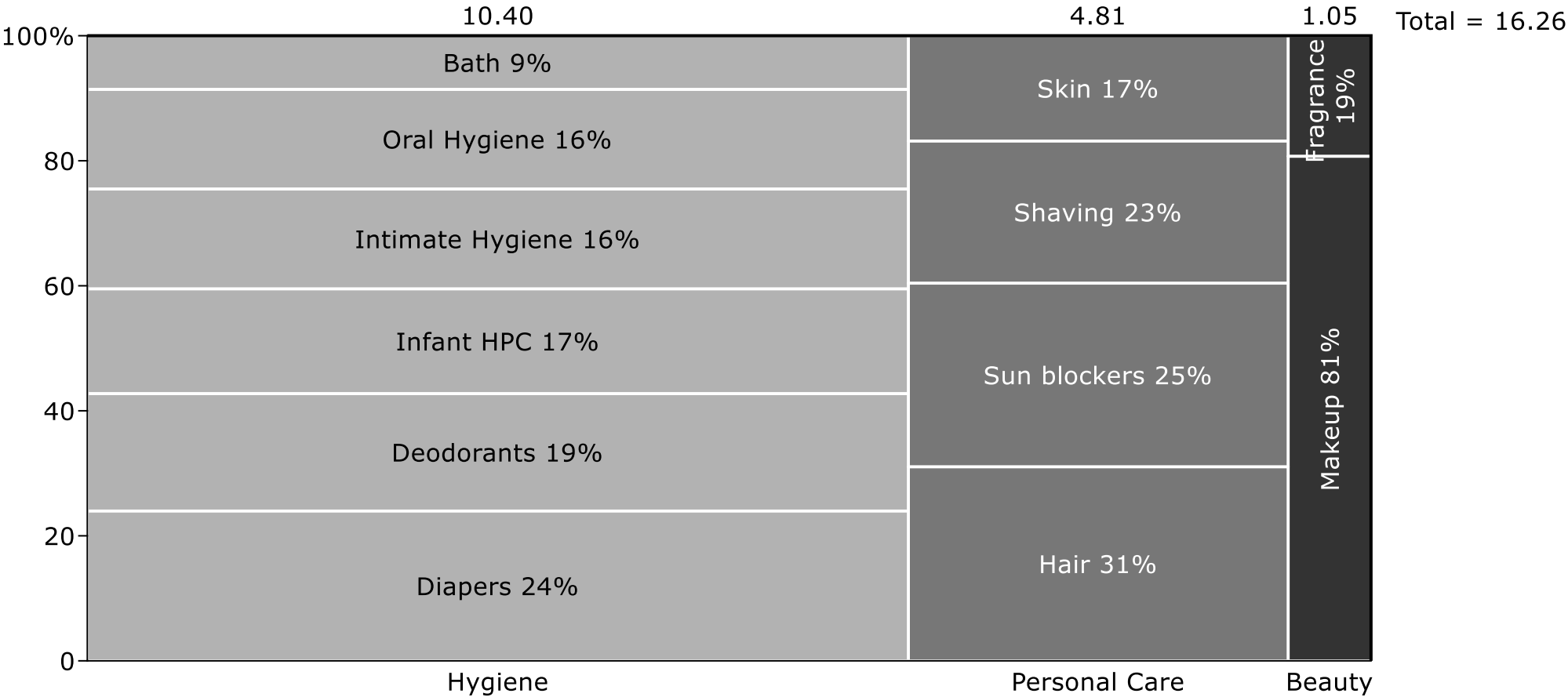
- All types of premium and low-end fragrances and colognes

Source: Bain Strategic Challenge – all data has been solely designed to match the solution of this case



In Brazil, Hygiene is the most relevant dimension within HPC products sold in drugstores

Revenue per HPC category in Brazilian drugstore market
(R\$B, Y0)



Source: Bain Strategic Challenge – all data has been solely designed to match the solution of this case



The shelf space of one category is measured in numbers of exposure modules it occupies

PRODUCT EXPOSITION



TALK POINT WITH PRODUCTS DIRECTOR

"We can not expand total HPC area.
The CEO doesn't want to deprive the other product in favor of HPC"

"One module of exposure can be split to display a maximum of 2 categories,
each occupying half of it"

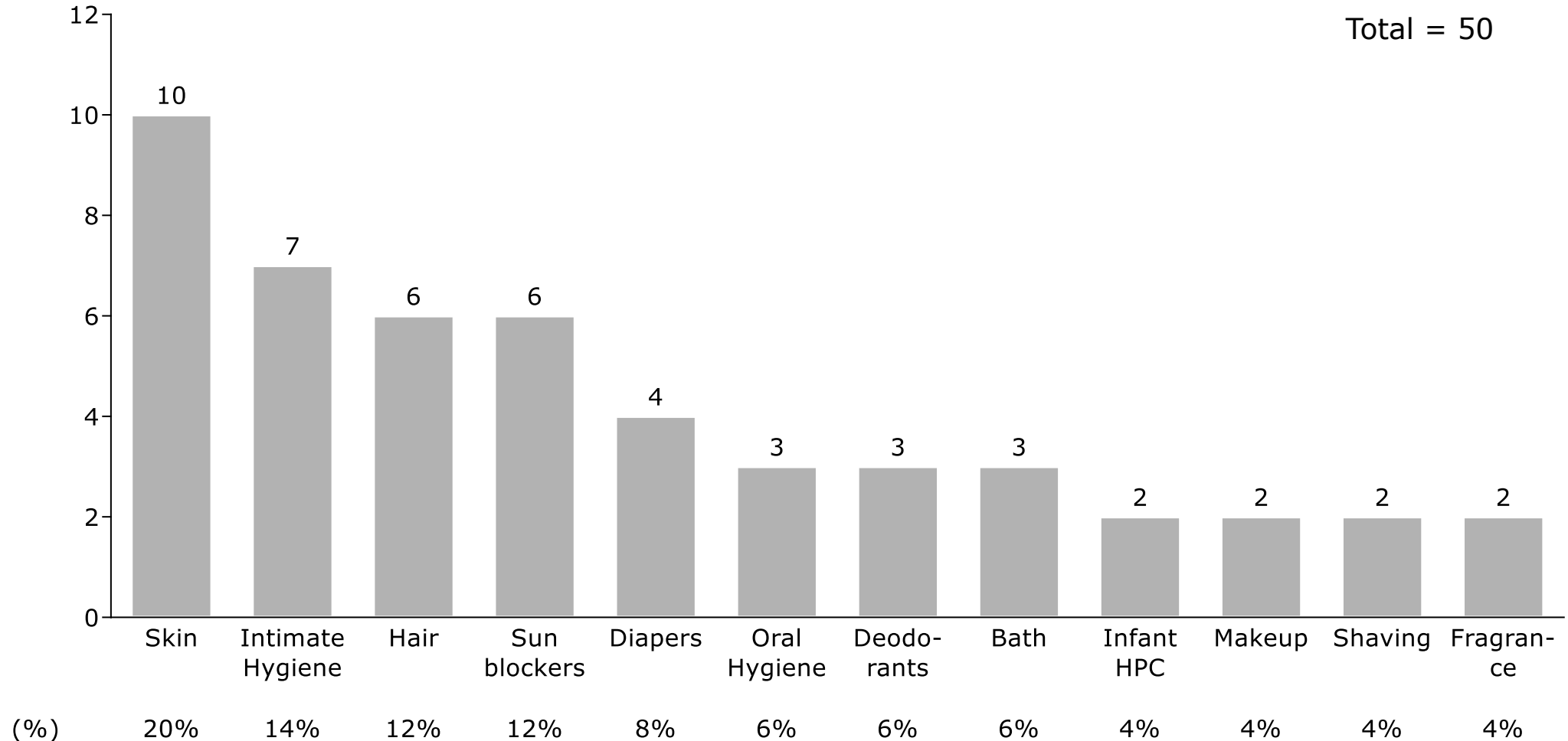
"Although some categories are less profitable than others, we must have at least a minimum competent mix of every category of half a module"

"Because of the current store display, if any category expands its shelf space in more than 2 modules, it would have to be split in two different hallways, which is very negative in terms of customer experience

Source: Bain Strategic Challenge – all data has been solely designed to match the solution of this case

Skin, IH, hair, and sun blockers occupy ~60% of the HPC's shelf space in Bela Vista store

Shelf space allocation in Bela Vista store (# exposure modules)



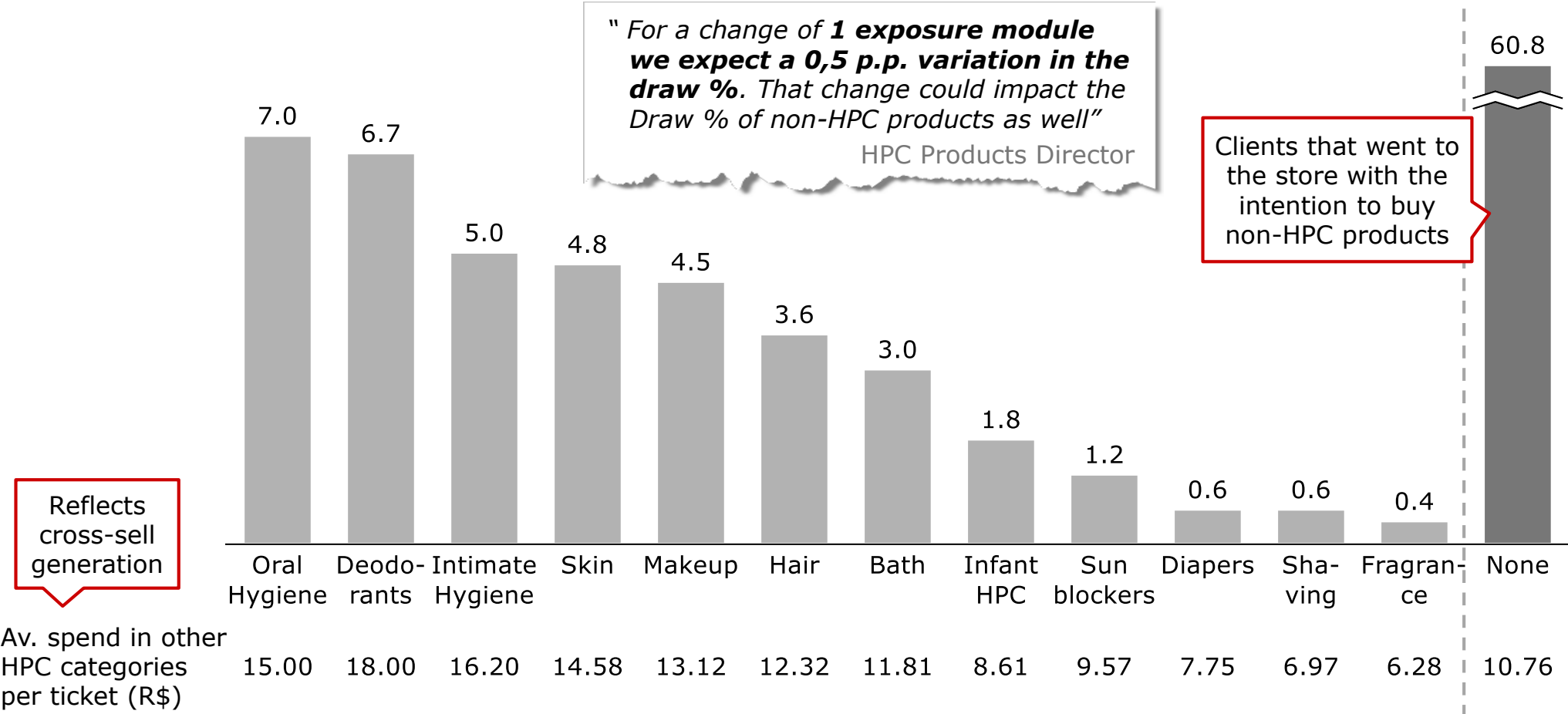
Source: Bain Strategic Challenge – all data has been solely designed to match the solution of this case



Almost 40% of Bela Vista clients go to the store with the intention to buy a specific HPC product

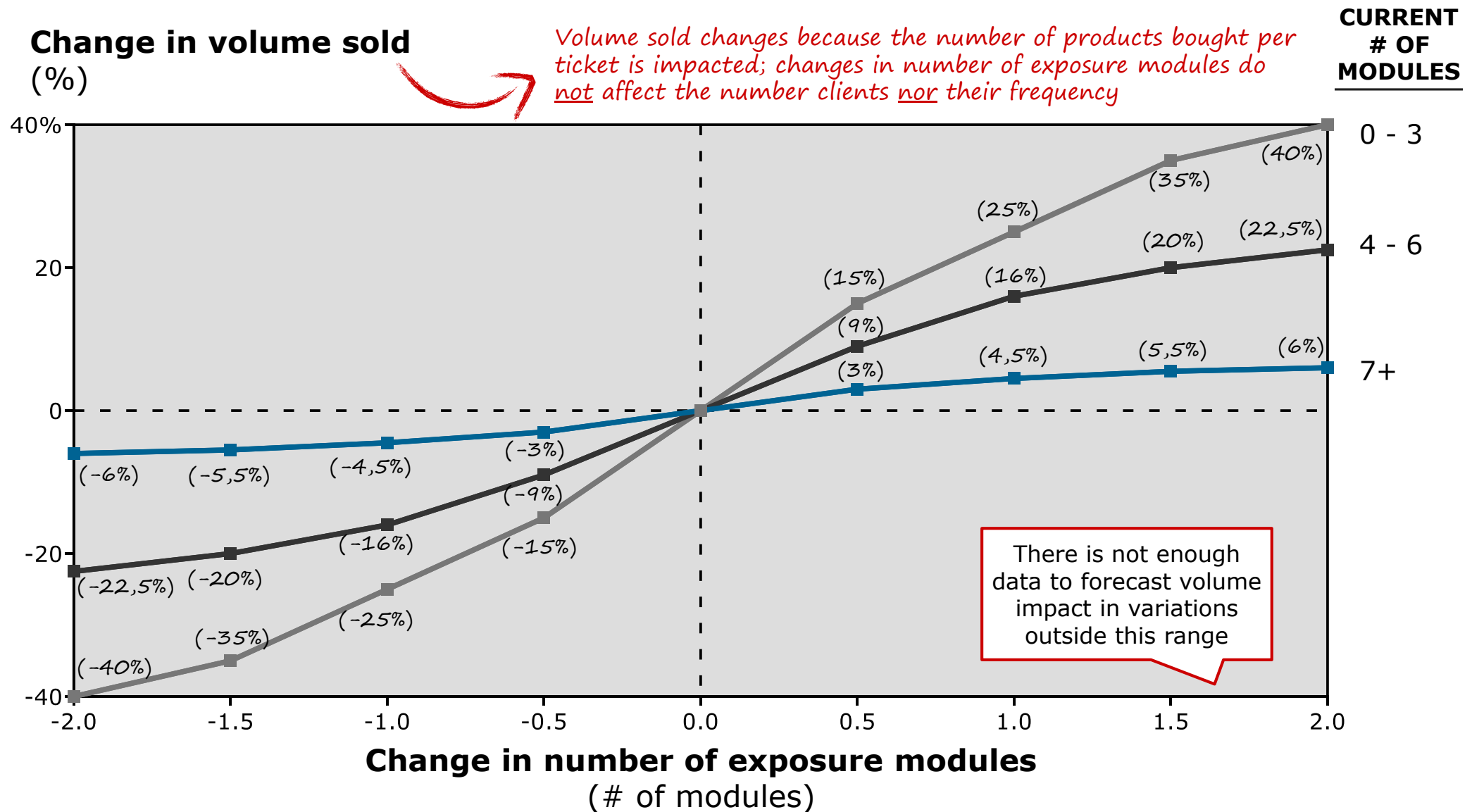
Category draw in Bela Vista store
(% of destination tickets, check-out survey with consumers)

Total = **144k tickets/year**



Note: Considers only clients that bought at least one HPC product
Source: Bain Strategic Challenge – all data has been solely designed to match the solution of this case

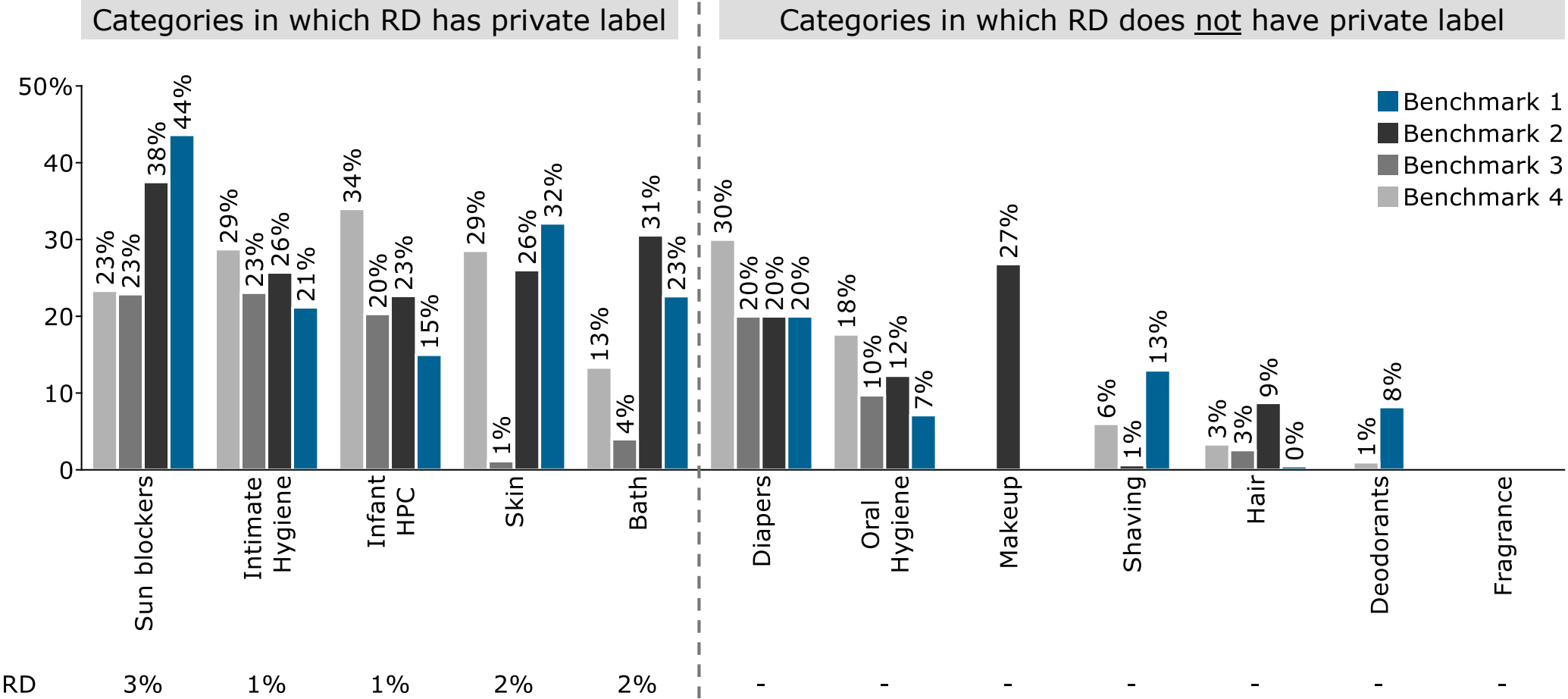
Variation in shelf space results in different sales impact depending on current # of modules



Source: Bain Strategic Challenge – all data has been solely designed to match the solution of this case

Private label sales vary among categories on the studied benchmarks

Private Label revenue in benchmarked drugstores (% over other brands, Y0)



Source: Bain Strategic Challenge – all data has been solely designed to match the solution of this case

The private label director gave us his impressions about private label full potential

PRIVATE LABEL DIRECTOR QUOTES

*"I am very skeptical about full potentials because they never match with reality. Therefore I am expecting **a sensitivity analysis with different scenarios of margin and private label penetration**"*

*"As you know, currently we don't invest much in private label, but the plan is to invest hard in the three categories we choose now. I will set the **benchmarks' comparison over other brands as the goal for the department.**"*

*"Our current private label portfolio is very small, so I don't think our current margins are realistic compared to what we can achieve after investing in the three categories. We know that, on average, a highly invested **Private Label product has 50% larger margins than its branded competitor.** However, margins **lower than 40% or higher than 70% are unrealistic.**"*

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BAIN & COMPANY 